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## Argentina

### Sugar

### Annual

### 2004

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**Report Highlights:**

Argentine sugar production for marketing year 2005 (2004/05) is projected at 1.74 million tons. Although farmers anticipated a bumper crop, dry weather is expected to reduce production by 10 percent. Exports are forecast at 285,000 tons, higher than the previous year, including a large carryover from the record high MY2004 crop. The principal markets will be the U.S. for raw sugar and Chile and African countries for 220,000 tons of refined sugar. Argentine sugar production in the next 2-3 years could reach 2 million tons, with no important structural changes foreseen.

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Includes PSD Changes: Yes  
Includes Trade Matrix: No  
Annual Report  
Buenos Aires [AR1]  
[AR]

**SECTION I. SITUATION AND OUTLOOK**

Argentine sugar exports for MY2005 (2004/05) are projected to increase due to an unusually high carry-in from last year's surprisingly abundant crop. Despite lower than expected production plus slightly higher domestic use, exports will total 285,000 tons. Traders expect Argentina to ship about 65,000 tons of raw sugar, mostly under the U.S. sugar quota. Refined sugar exports are expected to reach 220,000 tons, mainly to Chile and Africa.

Export surpluses would have been much larger in MY2005, but dry weather significantly affected production. Except for the U.S. and Chilean quotas, sugar is exported mainly to balance domestic supply and demand. By doing this, mills are able to market the sugar more efficiently and maintain a good and profitable domestic price for 85-90 percent of the crop and sell at a lower price (sometimes even at a loss) a small portion to the world market. This year, larger mills, which are in a better financial situation, proposed a scheme by which they would buy excess sugar from the smaller mills at an average export price to export. From MY2004, there will be a carry over of roughly 200,000 tons, half of which will be exported at the beginning of the new harvest.

Imports of sugar for MY2005 are forecast at 5,000 tons, a lower volume than in MY2004. Although Argentina is a net exporter, some local food manufacturers use temporary imports of sugar from Brazil in order to negotiate better prices while buying locally. Temporary imports of sugar are allowed as long as the company processes it and re-exports it as a finished product within a year. Under this system, import duties are not paid, and the cost of Brazilian sugar is somewhat cheaper.

Argentine sugar production for MY2005 (2004/05) is projected down at 1.74 million tons. Although cane producers, after last year's profitable season, prepared for an excellent crop, dry weather in November and January through March negatively affected plantations. With normal weather, cane production would have increased approximately 10 percent from MY2004, but private sources now estimate a loss of about 10 percent from last year. Plantations in Tucuman suffered more than in Salta and Jujuy, where sugarcane is irrigated. Last year's harvest ended in early October, earlier than usual, due to the absence of frosts and rain. Most farmers renovated more cane than usual and managed the plantations in an optimum manner. Throughout the season it was hot and dry, and the condition of the cane is currently quite spotted. There are areas in Tucuman province which are in very good shape, but the bulk of the area has suffered different grades of losses, making this year's volume difficult to estimate accurately.

Total sugar production for MY2004 (2003/04) ended with a surprising record production of 1.925 million tons. Most players forecast a much smaller crop, as the condition of plantations in March 2003 was regular due to drought. From then on, mild weather and the absence of frosts allowed the cane to continue growing during winter, providing better than expected farm yields and excellent factory yields. Once the market realized the large surplus, mills began to export whatever they could.

The past two seasons were very profitable for the local sugar complex, and the same is expected for MY2005. The devaluation in early 2002 caused sugar prices to increase significantly in the local market, while the cost of production increased in a much lower proportion. Inflation since January 2002 was 47 percent, while sugar prices increased roughly 130 percent. Sugar exports also became a very profitable business, especially in 2002 and 2003. The new price/cost equation brought great relief to a business which had suffered low returns during the 90s. As a result, both producers and mills have invested significantly in their businesses in the past two years. On the farmers' side, they have renovated more cane than usual, which in general, was in a regular condition. As an

example, in Tucuman producers were renovating at a 10-13 percent rate, but in the past two years they have doubled that percentage. In the three producing provinces, Tucuman, Salta and Jujuy, a small expansion of area has occurred. Sources estimate that approximately 15,000 hectares were added. Cane plantations are given more attention and the use of ag chemicals increased. Some producers have expanded warehouse capacity to stock their sugar and market it when necessary. On the side of the mills, almost all are in a much better financial situation. Sources indicate that many mills invested primarily in improving processing efficiency. Also the few companies which produce their own cane, somewhat expanded their planted area.

Sugar prices at the mill for MY2005 are projected to remain quite stable, ranging between pesos 0.65 and 0.70 per kilo (\$0.24). With this level of prices, farmers' returns will continue to be good. While the total cost of production (including harvest, freight and overhead costs) is roughly \$9.5 per ton of sugarcane, income is about \$13 per ton, with a total net profit of \$200 per hectare (considering an average sugar yield of 55 tons per hectare). Despite good returns, the expansion of the sugarcane area will suffer a fierce competition from easy and extremely profitable soybeans in Tucuman. With current soy prices, producers' returns are higher than with sugarcane and soy has proven to be a very good rotation crop prior to planting cane.

There are 23 sugarcane mills in Argentina, of which 15 in Tucuman produce 60 percent of the country's sugar. In Salta and Jujuy there are 5 mills, two of which are in the country's top three largest mills. These mills primarily process sugar grown on their own plantations. The rest are very small mills located in Santa Fe and Misiones province. Tucuman currently accounts for 5,500 producers, while a decade ago there were more than twice as many.

Argentina has very good sugarcane varieties which are developed locally, and new varieties are launched frequently. Private sources indicate that Brazil has developed GMO sugarcane (not commercially available), and that Argentina will not adopt GMO varieties in the near future. Production of GMO sugarcane will probably come after some countries adopt its use. Total production of organic sugar in Argentina is close to 8,000 tons and a small expansion is expected in the future.

There is no official policy directed to the sugar sector, which operates under a free market. The Secretariat of Agriculture distributes the volume which each mill will be able to export under the U.S. sugar quota. The distribution takes into account the amount of sugar each mill exported to the world, excepting the U.S. quota. Regarding imports, last year Congress passed the Sugar Duty Protection Law which sets an extra adjustable duty protection on imported sugar. This law is aimed at protecting the sector from Brazilian sugar imports, which the local sector claims is highly subsidized through its gasohol program.

Domestic sugar consumption for MY2005 is forecast at 1.57 million tons, slightly higher than the previous year. After the economic crisis of 2002, the country grew almost 9 percent in 2003 and is expected to continue to grow, but at a somewhat lower pace. Both domestic demand and exports of foods and beverages are expected to expand in MY2005. However, the local beverage industry, which is one of the largest consumers of sugar, is increasing the use of artificial sweeteners.

## SECTION II. STATISTICAL TABLES

Commodity	Centrifugal Sugar (1000 MT)					
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [	Estimate [DA	Official [	Estimate [DA	Official [	Estimate [I
Market Year Begin	06/2002		06/2003		06/2004	
Beginning Stocks	130	130	71	76	72	236
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	1650	1650	1650	1925	0	1740
TOTAL Sugar Production	1650	1650	1650	1925	0	1740
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	1	1	1	10	0	5
TOTAL Imports	1	1	1	10	0	5
TOTAL SUPPLY	1781	1781	1722	2011	72	1981
Raw Exports	50	50	50	45	0	65
Refined Exp.(Raw Val)	220	215	160	170	0	220
TOTAL EXPORTS	270	265	210	215	0	285
Human Dom. Consumptic	1430	1430	1430	1550	0	1560
Other Disappearance	10	10	10	10	0	10
Total Disappearance	1440	1440	1440	1560	0	1570
Ending Stocks	71	76	72	236	0	126
TOTAL DISTRIBUTION	1781	1781	1722	2011	0	1981

## PSD Table

Country	Argentina					
	Commodity	Sugar Cane for Centrifugal (1000 HA)(1000 MT)				
		2003	Revised	2004	Estimate	2005
Market Year Begin	USDA Official [	Estimate [DA	Official [	Estimate [DA	Official [	Estimate [I
	06/2002		06/2003		06/2004	
Area Planted	265	265	270	275	0	280
Area Harvested	255	255	260	255	0	260
Production	14750	14750	15300	16960	0	15250
TOTAL SUPPLY	14750	14750	15300	16960	0	15250
Utilization for Sugar	14750	14750	15300	16960	0	15250
Utilizatr for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	14750	14750	15300	16960	0	15250